



GROUPWORKS FINANCIAL CORP.

**MANAGEMENT DISCUSSION & ANALYSIS**

FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2008

JANUARY 27, 2009

**MANAGEMENT DISCUSSION & ANALYSIS**

FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2008

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## MANAGEMENT DISCUSSION & ANALYSIS

FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2008

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This Management Discussion and Analysis (“**MD&A**”) and accompanying unaudited consolidated financial statements of Groupworks Financial Corp. (the “Company”), covers the three month period ended November 30, 2008. Certain balances have been provided for discussion purposes only. This MD&A should be read in conjunction with the interim unaudited and annual audited consolidated financial statements as filed at [www.sedar.com](http://www.sedar.com).

All financial information is presented in Canadian dollars and in accordance with Canadian generally accepted accounting principles (“**GAAP**”) unless otherwise noted. Certain totals, subtotals and percentages may not reconcile due to rounding. The information in this MD&A is presented as at January 27, 2009 unless otherwise noted.

This MD&A contains “forward-looking statements” within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Use of words such as “may”, “will”, “expect”, “believe”, or other words of similar effect may indicate a “forward-looking” statement. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our publicly filed documents (available on SEDAR at [www.sedar.com](http://www.sedar.com)) and in this MD&A under the heading “Risks and Uncertainties”. Those risks and uncertainties include the ability to maintain profitability and manage organic or acquisition growth, reliance on information systems and technology, reputational risk, dependence on key clients, reliance on key professionals and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of the Company, its financial or operating results or its securities.

This discussion also makes reference to certain non-GAAP measures such as EBITDA, EBITDA margin and Adjusted EBITDA, to assist investors in assessing the financial performance of the Company. Non-GAAP measures do not have any standard meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other issuers.

***Amounts set forth in this MD&A are stated in thousands of dollars except for per share and issued and outstanding share data, and unless otherwise noted.***

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### INDUSTRY OVERVIEW

The Canadian life and health insurance advisor marketplace is relatively concentrated amongst a small number of multi-national consulting firms, while the balance of the group benefits and group pension business is managed by a large number of smaller regional and local market participants. The scope of services offered by both types of organizations includes pension and benefits consulting, pension and benefits administration, communication consulting, actuarial services, human resource consulting and wellness consulting. The multi-national consulting firms primarily offer fee-based consulting and administrative services, with the balance of the marketplace operating primarily on commission-based compensation, with limited fee-based services available depending upon the client and the services required.

Management believes that the pension and benefits consulting and administration business will continue to develop in the coming years, and that the insurance advisor marketplace is well positioned for consolidation, each for a variety of reasons including: (i) advisor demographics and lack of succession planning options; (ii) workforce demographics; and (iii) the growing need for external expertise in consulting and administration matters.

### BUSINESS OVERVIEW

Groupworks is a pension and benefits consulting and outsourcing firm, providing services to organizations in various industries. The shares of the Company trade on the TSX Venture Exchange under the symbol "GWC". Our clients are primarily small and medium-sized organizations, which typically utilize services on a recurring or contracted basis over a long term. We focus on the integrated design and delivery of retirement, employee compensation and benefit programs. The Company also services the post secondary education sector by providing medical and dental benefits advisory services to students. We have over 45 professionals and support staff with three main offices in Ontario (Markham, Whitby and Waterloo).

The Company derives revenue primarily from commissions paid by its clients' insurance companies, which is common practice for the group benefits consulting business. These commissions are typically disclosed to the client and are based on a percentage of the premiums paid by the client to the insurance company. The Company assumes no underwriting risk as the insurance policy is underwritten by the insurance company. For some benefit consulting engagements, revenue may be derived from fees charged to clients for pension and benefits consulting and outsourcing in lieu of commissions described above. The fees may be earned on an hourly or per employee/student basis. The Company currently derives approximately 60% of its revenues from commissions paid by the insurance companies and the remaining 40% based on fees for service. Further, approximately 60% of the Company's total revenues are contracted for periods of one to seven years. The largest operating expense of the Company is compensation and related costs which includes salaries, commissions, bonuses, stock options, group benefits, and payroll taxes. Other operating expenses include occupancy costs, technology costs (equipment leases, telecommunications and software), non-recoverable client service costs (such as printing, travel and third-party professional services), training, marketing, office costs, professional services (legal and audit) and insurance.

The insurance brokerage market is highly competitive and is composed of a large number of companies of varying size and scope of services. Insurance companies themselves also offer their products through other methods, including insurance agents and direct distribution channels, which are competitive with the insurance brokerage industry and the Company.

The Company earns its revenues from a diverse base of clients in various industries. In fiscal 2009, approximately 17% of the Company's revenues are expected to be generated from the public sector in the form of municipalities, regions, townships, hospitals and school boards, all considered significant and stable employers. The Company also services the landscape and nurseries industry involving retail,

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wholesale distribution and production clientele. Approximately 13% of its revenues are generated from this industry segment. Finally, approximately 52% of the revenues are expected to be earned from post secondary students throughout Canada.

### FORMATION AND OWNERSHIP STRUCTURE

The Company was formed in July 2006 in order to consolidate various pension and benefits advisory businesses under a single corporate structure. The Company issued 4,358,334 common shares and raised \$795.0 through various private placements and also arranged for \$1,000.0 of short term debt which was drawn down for acquisitions as needed. On September 1, 2006, the Company acquired, the Investment Guild Insurance Agency Inc. ("Investment Guild") and Buffett, Taylor & Associates Insurance Agencies Inc. ("Buffett Taylor") both of which operate established pension and benefits consulting and outsourcing service businesses in Canada (See Acquisitions below). On May 1, 2007 the Company amalgamated with its wholly owned subsidiaries the Investment Guild and Buffett, Taylor and continued as Groupworks Financial Corp.

On May 28, 2007 the Company closed its initial public offering (the "Offering") for approximately \$3,780.0 before agent fees, by issuing 6.3 million units. On June 7, 2007 the Offering was completed when Jones Gable & Company Limited (the "Agent") exercised its over allotment option for an additional 600,000 units for gross proceeds of approximately \$360.0 to the Company. Agent, legal and accounting fees related to the offering totaled approximately \$687.2 for net overall proceeds of approximately \$3,452.8. Each unit consists of one Common Share and one-half of one share purchase warrant of the Company (each whole such purchase warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire, subject to adjustments pursuant to the warrant indenture under which the Warrants have been issued, one Common Share at a price of \$1.00 until May 27, 2009, provided the closing price of Common Shares on the principal stock exchange on which such shares trade exceeds \$1.20 for 20 consecutive trading days, then the Warrant term shall automatically be reduced and the Warrants will expire on the date 30 days following the issuance of a press release announcing the reduced Warrant term.

On July 5, 2007 the Company completed the acquisition of Gallivan & Associates Student Networks Inc. ("Gallivan") and 1246689 Ontario Limited ("124") which operate a student benefits advisory business across Canada. Gallivan operated as a wholly owned subsidiary of Groupworks during fiscal 2008. On September 1, 2008, the Company amalgamated with Gallivan and 124 and continued as Groupworks Financial Corp.

### ACQUISITIONS

The Company's business plan, as described above, is to acquire additional businesses which are complementary to the existing businesses. Management has identified and is pursuing a number of group benefit and pension advisory businesses across Canada. The three acquisitions mentioned above now operate as divisions of the Company.

#### *The Investment Guild*

The Investment Guild which was established in 1981 specializes in corporate benefits, association plan benefits and flexible benefits. The shares were purchased for consideration of \$2,778.2 involving; short-term debt, issuance of common shares of Groupworks and a vendor take-back loan.

#### *Buffett, Taylor*

Buffett, Taylor established in 1981 based in Whitby Ontario, specializes in group benefits in the public, private and not-for-profit sectors. 100% of the shares of Buffett Taylor were purchased from Buffett, Taylor & Associates Insurance Agencies Ltd. in exchange for \$3,161.4. The present value of the consideration given was \$2,900.6 and was settled with cash and vendor take-debt debt.

**MANAGEMENT DISCUSSION & ANALYSIS**

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*Gallivan*

On July 5, 2007, the Company purchased the shares of Gallivan & Associates Student Networks Inc. and 1246689 Ontario Limited (“Gallivan”), a group benefits advisory company based in Waterloo, Ontario, that specializes in University and College student health and dental benefits in Canada. The aggregate purchase price paid for Gallivan was \$5,893.6 and was settled with cash, vendor take-debt debt and common shares of Groupworks.

**SELECTED FINANCIAL INFORMATION**

Amounts are derived from the unaudited interim financial statements.

	Q1	
	2009	2008
<b>Income Statement Information</b>		
Revenue	1,422	1,258
EBITDA (see note (iii) below)	136	25
Net income (loss)	91	(153)
<b>Balance Sheet Information</b>		
Total assets	13,112	14,291
Total debt	1,813	3,567
Other liabilities (excl. future taxes)	1,966	1,451
Shareholders' equity	7,831	7,378
Total liabilities and shareholders' equity	13,112	14,291
Weighted average shares outstanding		
– basic	15,831,931	15,731,155
– fully diluted	21,272,931	21,082,320
Income (loss) per share	\$ 0.01	\$ (0.01)
Fully diluted income (loss) per share	\$ 0.01	\$ (0.01)

**ANALYSIS OF THE FIRST QUARTER OF FISCAL 2009**

The following summary financial information is derived from the Company's unaudited consolidated financial statements for the three month period ended November 30, 2008.

**Overview**

During the first quarter of fiscal 2009, the Company increased its revenues by 13% over the same quarter last year. Revenues were up to \$1,421.6 from \$1,258.3 in the same quarter last year. The operating margin for the first quarter improved to 27.7%, up from 20.2% last year and consistent with management's goal of 30% operating margin. EBITDA increased to \$136.0 in the quarter up from \$25.3 last year. Net income for the quarter has improved to \$90.6, up from a loss of \$152.8 reported for the first quarter of fiscal 2008.

From an operating perspective, management met its expectations in the first quarter of fiscal 2009 and expects to achieve, without the impact of any additional acquisitions, approximately \$7,300.0 in annualized revenues in fiscal 2009, an operating margin of approximately \$2,190.0 or 30% and EBITDA of \$1,400.0.

Subsequent to the first quarter, the Company announced the acquisition of People Corporation on December 31, 2008. The proposed transaction is subject to regulatory approval and is expected to close in

**MANAGEMENT DISCUSSION & ANALYSIS**

FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2008

February 2009. The Company signed a Share Exchange Agreement with the shareholders of People Corporation to acquire 100% of the outstanding common shares of People Corporation for approximately \$5,917.9 including approximately \$110.0 of acquisition costs, (\$4,544.4 when net of cash acquired of \$1,373.5). In exchange, the Company will issue 15,831,930 common shares at \$0.25 per share and a \$2,273.7 non-interest bearing promissory note payable in 60 monthly installments beginning at the closing date. The discounted value of the promissory note is approximately \$1,850.0. The Company anticipates increasing its annual revenues by approximately \$12,000 and EBITDA by approximately \$865.0 million.

The Company continues to pursue its strategy of aggregating small and medium sized group benefit and pension advisory service businesses. Management is encouraged by the growth of its pipeline of potential acquisition candidates.

Net income details for the quarter ended November 30, 2008: (amounts derived from the unaudited interim financial statements).

	Q1	
	2009	2008
Revenue	1,422	1,258
Operating costs (i)	1,028	1,004
Operating margin	394	254
Operating margin %	<b>27.7%</b>	<b>20.2%</b>
Head office costs (ii)	258	229
EBITDA (iii)	136	25
Less:		
Stock-based compensation expense	3	63
Depreciation of capital assets	18	22
Amortization of intangibles	138	138
Interest expense	18	39
Income taxes	(132)	(84)
Net income (loss)	<b>91</b>	<b>(153)</b>

- (i) Represent operating expenses of the acquired businesses and are part of the expense disclosed in the unaudited interim and audited annual financial statements.
- (ii) Represent general and administrative expenses incurred at the corporate head office and are part of the expense disclosed in the unaudited interim and audited annual financial statements.
- (iii) Management defines EBITDA as earnings before interest, taxes, depreciation and amortization, stock-based compensation and other non cash charges. Management believes that in addition to net income (loss), EBITDA is a useful supplemental measure for investors of earnings before debt service, capital asset charges and taxes. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flow from operating, investing and financing activities or the Company's liquidity. EBITDA does not have a standardized meaning prescribed by generally accepted accounting principles (GAAP) and therefore the Company's method of calculating EBITDA may not be comparable to similar measures presented by other companies or issuers.

**Revenue**

Revenue for the three months ended November 30, 2008 was \$1,421.6 up 13% from \$1,258.3 a year ago for the same period. The \$163.3 increase is equally to organic growth from new and existing clients and the impact of a one-time change in renewal date of two large clients.

**Salaries, Commissions and Benefits Expenses**

Salaries, benefits and commissions for the three months ended November 30, 2008 were \$877.6 versus \$845.3 for the same period a year ago. The 3.8% increase is due higher commissions on higher revenues, bonuses and general increases in salaries.

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**Stock-based Compensation**

Stock-based compensation for the first quarter ended November 30, 2008 was \$3.1 versus \$62.6 in the prior year. The decrease is due mainly to the fact that approximately 1,024,000 options granted in 2006 fully vested in fiscal 2008.

**Other Operating Expenses**

Other operating expenses for the first quarter ended November 30, 2008 were \$408.0 versus \$387.7 for the same period a last year. The slight increase in operating expenses over the prior year include increased advertising and marketing, and non recoverable client support costs, off-set by lower consulting costs.

**Interest Expense**

Interest expense for the three months ended November 30, 2008 was \$ 17.8, down from \$38.7 for the same period last year. The decrease is due to lower vendor take back (“VTB”) debt balances outstanding during the quarter.

**Depreciation and Amortization**

Depreciation and amortization for the first quarter ended November 30, 2008 was \$156.0 including \$138.1 of amortization for intangibles and \$17.9 for capital assets. The depreciation and amortization is consistent with the prior year.

**Income Tax Expense**

For the first quarter ended November 30, 2008 the current income tax expense was \$77.6 compared to a recovery of \$36.6 in the same period a year ago. Approximately \$54.3 of the increase to the current provision relates to the recapture of capital cost allowance from the sale of real estate. Higher income in the quarter due to higher revenues and improved profitability also increased the current tax provision. The statutory rate has changed from 36.12% to 33.5% in fiscal 2009. The change in future tax charge reflects the impact of the sale of real estate.

**Net Income**

As a result of the revenue and expenses described above, the net income for the first quarter was \$90.6 up from a loss of \$152.8 recorded in the same quarter last year. The significant improvement is consistent with additional revenues noted above and improved profitability of the operations and the impact of future taxes.

**LIQUIDITY AND CAPITAL RESOURCES****Cash Flows**

The following table summarizes the Company’s cash flows for the periods ended November 30:

	<b>For the three months ended November 30</b>	
	<b>2008</b>	<b>2007</b>
Operating activities	\$ 181.6	\$ (644.9)
Investing activities	394.9	(8.5)
Financing activities	(580.7)	(22.1)
Increase (decrease) in cash	<u>\$ 4.2</u>	<u>\$ (675.5)</u>

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**2008 Fourth Quarter Cash Flow Analysis**

The Company generated enough cash from operating activities in the quarter, to augment proceeds from the sale of real estate, to pay down approximately \$580.7 of VTB debt.

Cash flow generated from operating activities increased by \$826.5 in the first quarter of fiscal 2009 to \$181.6 from a usage of \$644.9 over the same period a year ago. The significant increase in EBITDA and resulting net income in the quarter was augmented by the positive impact of the change in non-cash working capital. In October 2007, an accrued bonus of \$509.2 acquired in the Gallivan acquisition was paid.

Cash flow generated in investing activities in the first quarter of 2009 was \$394.9 as a result of the sale of real estate offset by capital asset additions. In the same period a year ago the investing activity was limited to minor capital asset additions.

Financing activities in the current year's quarter included the second structured payment related to the Buffett Taylor acquisition of \$275.5 and the retiring of the real estate mortgage of \$300.1.

**Capital Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide opportunities for growth to shareholders and benefits for other stakeholders and to maintain financial flexibility in, or to take advantage of, organic growth and new acquisition opportunities as they arise.

In the management of capital, the Company includes cash, bank financing, vendor take back debt and shareholders' equity in the definition of capital. The Company manages its capital structure and can adjust it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust capital structure, the Company may issue new shares, issue new debt, renegotiate vendor take back debt or issue new debt to replace existing debt with different characteristics. The Company's acquisition strategy includes the issuance of debt and shares. The Company uses its operating line of credit during the year to finance cash flows related to seasonal changes in non-cash working capital items.

**Capital Resources**

The following table summarizes the Company's capital resources as at:

	<b>November 30, 2008</b>	<b>November 30, 2007</b>	<b>August 31, 2008</b>
Cash	\$ 650.5	\$ 474.1	\$ 654.7
Working capital (including cash)			
Current assets	1,247.7	1,453.4	1,366.4
Current liabilities (i)	1,897.4	1,424.3	1,914.4
Long-term debt (VTB)(ii)	1,813.2	3,546.4	2,379.8
Shareholders' equity	7,831.0	7,378.0	7,761.6
(i) Excludes current portion of long-term debt			
(ii) Includes current portion of long-term debt			

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The following summarizes the Company's future expected payments:

	<b>Total</b>	<b>Payments due by period</b>		
		<b>2009</b>	<b>2010 to 2013</b>	<b>Beyond 2013</b>
Current portion of long-term debt	1,813.2	1,289.2	\$ 524.0	-
Long-term debt	-	-	-	-
Operating leases	1,380.1	292.2	826.4	261.5
	<b>\$ 3,193.3</b>	<b>\$ 1,581.4</b>	<b>\$ 1,350.4</b>	<b>\$ 261.5</b>

Management expects to generate sufficient cash from operations to continue financing its seasonal working capital needs through fiscal 2009. The Company's main challenge in this regard, is the timing of its cash inflows and the timing of its VTB debt payments scheduled in fiscal 2009. The Company cannot meet those obligations given its current working capital shortfall of approximately \$649.7 excluding \$1,813.2 of VTB debt due within twelve months. As a result, management has re-negotiated with the VTB debt holders to delay the principal payments to August 2010 with the former owners of The Investment Guild and Gallivan. The Investment Guild and Gallivan VTB debt holders are employees, directors and shareholders of the Company. The details are outlined below.

Management was also able to raise \$300.0 of long term debt which closed on December 3, 2008. The loan is repayable over 48 months with interest and principal payments due quarterly beginning December 31, 2008. The loan is not reflected in the first quarter financial statements as it occurred subsequent to the quarter ended November 30, 2008.

A summary of the re-negotiated VTB debt terms are as follows:

**Investment Guild** – (the VTB debt at November 30, 2008 is \$426.5 and was due September 2008)

1. Payment of \$26.5 was made on December 19, 2008 and \$400.0 of principal has been deferred to August 2010 or until such time as the cash flows of the Company permit partial or full payment.
2. Simple interest of 8% per annum plus a 4% per annum penalty on the \$400.0 is to be paid monthly beginning February 1, 2009 and retroactive to September 1, 2008.

**Gallivan** - (the VTB debt at November 30, 2008 is \$587.2 of principal and \$55.4 of accrued interest both due July 2009)

1. Payment of \$73.6 of accrued interest in July 2009 and deferral of \$587.2 to August 2010 or until such time as the cash flows of the Company permit partial or full payment.
2. Simple interest of 8% on the \$587.2 paid monthly beginning July 16, 2009.

**Buffett Taylor** – As at August 31, 2008, the undiscounted amount owing was \$1,102.1. The amount is due in two equal installments on September 1, 2008 and September 1, 2009 with an option in favor of the Company to satisfy 50% of the debt in common shares of the Company.

The maximum amount payable has been reduced to \$855,000 in cash under the following payment terms:

1. \$275.5 payable on October 31, 2008, which has been paid;
2. \$200.0 payable on December 1, 2008, which was paid on December 3, 2008;
3. \$379.5 payable on June 30, 2009; but
4. The Company may reduce the \$379.5 by up to 15% should the amount be paid by March 31, 2009.

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With the terms outlined above management is confident that it can manage its cash flows to effectively operate and grow its existing business.

**SEASONALITY**

The business of the Company in 2008 generated a higher number of renewals and consequently more revenues during the second and third quarters and lower renewals in the first and fourth quarters. As a result of changes in certain renewal dates including a major association group, from the third quarter to the fourth quarter, the Company will now collect over one third of its revenue in the fourth quarter and, without the impact of any other acquisitions, will result in higher revenues during the second and fourth quarters going forward.

**RELATED PARTY TRANSACTIONS**

During the period ended November 30, 2008 outlined below, the Company had significant activity with officers, shareholders and directors of the company. All the transactions are in the normal course of operations and are measured at the exchanged amount, which is the consideration agreed to by the parties. The related party transactions and balances are as follows:

	<b>Fiscal 2009</b>	<b>Fiscal 2008</b>
Revenue (i)	\$ 18.3	\$ 30.7
Expenses		
Salaries, wages & benefits (ii)	\$ 55.4	\$ 111.1
Commissions (iii)	56.2	47.7
General and administrative (iv)	2.7	8.5
Interest expense (v)	14.3	33.9
Accounts receivable (i)	\$ 18.3	\$ 10.5
Commission advances (iii)	28.2	105.3
Accounts payable & accrued liabilities (vi)	\$ 56.1	\$ 29.8
Current portion of long term debt (vii)	1,013.7	1,022.0
Long term debt (vii)	-	1,179.9

- (i) Consulting fee revenue of \$18.3 earned from a client that has two directors and shareholders who are also directors and shareholders of the Company is receivable at year end (Fiscal 2008 – \$10.5).
- (ii) Salaries, wages and benefits paid to the Chief Executive Officer who is both a shareholder and director of the Company.
- (iii) Commission payments totaling \$84.5 were made during the period (Fiscal 2008 - \$74.2) to Directors of the Company who are also employees, of which \$28.2 (Fiscal 2008 - \$105.2) is owed to the Company and included in commission advances in the financial statements.
- (iv) Consulting fees are paid to a vendor that has two directors and shareholders who are also directors and shareholders of the Company.
- (v) Cash interest payments of \$1.7 (Fiscal 2008 - \$5.9) were made to certain directors and shareholders of the Company. Accretive interest of \$ nil (Fiscal 2008 - \$26.2) (included in the long term loan balance) also accrued to these individuals during the quarter. Interest of \$12.5

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(Fiscal 2008 - \$21.4) on the vendor take back loan was accrued to the benefit of the Chief Executive Officer and two other directors and shareholders of the Company.

- (vi) Accrued interest on the vendor take back loan amounting to \$55.4 (Fiscal 2008 – \$21.4) was payable to the Chief Executive Officer and \$0.6 (Fiscal 2008 - \$8.5) of consulting fees payable to a vendor that has two directors and shareholders who are also directors and shareholders of the Company.
- (vii) Represents vendor take back debt on acquisitions owed to the Chief Executive Officer and certain directors of the Company.

**SUPPLEMENTARY SELECTED QUARTERLY FINANCIAL INFORMATION**

	November 30, 2008	August 31, 2008	May 31, 2008	February 29, 2008	November 30, 2007	August 31, 2007	May 31, 2007	February 28, 2007
<b>Income Statement Information</b>								
Revenue	1,422	1,528	2,210	1,902	1,258	1,083	1,511	904
EBITDA (see note (iii) below)	136	124	497	580	25	(74)	464	275
Net income (loss)	91	(79)	166	215	(153)	(387)	166	107
<b>Balance Sheet Information</b>								
Total assets	13,112	13,806	14,042	13,937	14,291	15,327	9,293	7,347
Total debt	1,813	2,385	2,970	2,956	3,567	3,574	2,911	4,382
Other liabilities(excl. future taxes)	1,966	1,948	1,454	1,480	1,451	2,343	764	684
Shareholders' equity	7,831	7,762	7,844	7,653	7,378	7,468	5,031	1,434
Total liabilities and shareholders' equity	13,112	13,806	14,042	13,937	14,291	15,327	9,293	7,347
Weighted average shares								
outstanding – basic	15,831,931	15,831,931	15,831,931	15,828,609	15,731,155	14,677,398	5,899,359	5,691,667
– fully diluted	21,272,931	20,982,148	21,272,931	21,195,433	21,082,320	19,302,545	7,408,205	7,096,667
Income (loss) per share	\$0.01	\$(0.01)	\$0.01	\$0.01	\$(0.01)	\$(0.03)	\$0.03	\$0.02
Fully diluted income (loss) per share	\$0.01	\$(0.00)	\$0.01	\$0.01	\$(0.01)	\$(0.02)	\$0.02	\$0.02

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Critical accounting policies are defined as those that are both very important to the portrayal of the Company's financial condition and results, and require management's most difficult, subjective or complex judgments. We are required in preparing the Company's financial statements, in accordance with GAAP, to make certain estimates, judgments and assumptions that we believe are reasonable based upon available information, historical information and/or forecasts. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting periods. Actual results could differ from these estimates. The accounting policies which management believes are the most critical to aid in fully understanding and evaluating our reported financial results include those relating to revenue recognition, business acquisitions and accounting for the resulting customer relationships and contracts, goodwill and income taxes.

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FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2008

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### **Revenue recognition**

The Company earns commission revenue as payment for the provision of benefits consulting services to clients, as a percentage of insurance premiums paid by our clients. Commission revenue is received annually, semi-annually, quarterly or monthly. Annual fees are typically paid at the beginning of the insurance policy period and are recognized as income at the later of the billing or effective date of the policy, net of a provision for return commissions due to policy cancellations.

The Company also earns fee-for-service revenue based on hourly rates and the time spent delivering those services. The Company may earn contracted revenue based on negotiated fixed amounts, rather than the time spent. Revenue is recognized in the period that the service is rendered, irrespective of when it is invoiced. Unbilled fees are recorded at the lower of unbilled hours worked at standard billing rates and the amount which management estimates can be recovered upon invoicing. Expenses are recognized as incurred. Revenue does not include reimbursements for recoverable expenses, such as employee travel expenses, outside printing and third party professional services. Reimbursements are accounted for as a reduction to expenses.

### **Business combinations**

Business acquisitions are accounted for using the purchase method whereby the fair value of consideration given is allocated to identifiable assets acquired and liabilities assumed. The results of operations and cash flows of an acquired business are included in the Company's financial statements from the effective date of acquisition. Where the consideration given is subject to contingent adjustment based on future periods' operating results, such adjustment is recognized in the period the contingency is resolved.

### **Amortization of finite-life intangible assets**

Under GAAP, finite-life intangible assets are amortized over their estimated useful lives. Management estimates that the estimated useful life of the customer relationships and contracts acquired is 10 years. The Company amortizes the cost of these finite-life intangible assets on a straight-line basis over 10 years. Management tests for recoverability of the carrying value of these intangible assets annually or whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

### **Goodwill**

Goodwill results from business combinations and represents the excess of the consideration given over the fair value of identifiable net assets acquired. Goodwill is not subject to amortization but is subject to an impairment test that is performed at least annually.

### **Future income tax**

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the year. Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are recognized using substantively enacted income tax rates. Future income tax assets are recognized with respect to deductible temporary differences and loss carry-forwards only to the extent their realization is considered more likely than not.

## **ADOPTION OF NEW ACCOUNTING STANDARDS**

Effective on September 1, 2007, the Company adopted Section 3855 "Financial instruments – Recognition and measurement" issued by the Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants.

Section 3855 sets out criteria for the recognition and measurement of financial instruments and requires all financial instruments within its scope, including derivatives, to be accounted for either at fair value, or in

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circumstances where fair value may not be considered the most relevant information, at cost or amortized cost. All financial instruments are classified into one of five categories, with each category possessing specific requirements for initial and subsequent recognition and measurement.

Upon adoption of Section 3855, the Company designated its cash as a held-for-trading, which is accounted for at fair value. Accounts and other amounts receivable are classified as loans and receivables, which are accounted for at amortized costs. Accounts payable and accrued liabilities, bank indebtedness, deferred revenue, commissions payable, long-term debt and other liabilities are classified as other financial liabilities, which are also accounted for at amortized costs. The Company elected to continue to capitalize transaction costs incurred upon the issue of financial liabilities. Amounts paid to lenders and transaction costs are considered in the calculation of the effective interest rate of financial liabilities and are amortized to interest expense using the effective interest method.

There is no difference in the carrying value and fair value of financial assets and liabilities described above and therefore the adoption of Section 3855 had no effect on the Company's financial position as at September 1, 2007.

Effective on September 1, 2007 the Company also adopted Section 1530 "Comprehensive income" issued by the AcSB. Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. Section 1530 requires certain gains and losses that would otherwise be recognized as part of net income (loss) to be presented in "other comprehensive income" until it is considered appropriate to be recognized in net income (loss). Section 1530 also requires the presentation of accumulated other comprehensive income (loss) and its components. Accordingly, the Company now includes comprehensive income (loss) within its consolidated statements of operations and comprehensive income (loss), and a statement of shareholders' equity as a separate financial statement.

### **NEW ACCOUNTING STANDARDS**

Effective on September 1, 2008, the Company adopted the following new accounting standards issued by the Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants:

Section 3862 "Financial instruments – Disclosures" replaces the disclosure requirements of Section 3861 "Financial instruments – Presentation and disclosure". Section 3862 requires additional disclosure of the risks associated with financial instruments and of how those risks are managed.

Section 1535 "Capital disclosures" requires disclosure of information to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital.

### **INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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### RISKS AND UNCERTAINTIES

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of management of the Company as outlined below.

#### Specialized Skill and Knowledge

The group insurance business requires considerable expertise and experience including an understanding of benefits plan design, legislative issues and parameters, provincial medicare programs, human resource matters, payroll, tax matters, financial products, financial planning, underwriting and costing of insurance products, relationships and credibility with insurance carriers/suppliers, licensing, and the ability to generate and maintain relationships with clients and prospective clients.

The Company requires a specialized group of individuals with extensive group insurance experience both from the carrier and brokerage perspectives as well as experience in mergers and acquisitions. In this regard, the Company currently has a number of well experienced employees possessing an average of approximately 14 years of industry experience, and holding various professional designations including CEBS, CLU and CFP designations. However, individuals with extensive group insurance experience are scarce, and in the event that the Company is unable to attract or retain such employees, it may have a material adverse effect on the business of the Company.

#### Regulation

Licensing is required under the laws of the Province of Ontario in order to carry on the business of insurance within the province. The Financial Services Commission of Ontario ("FSCO") is the self-regulatory body which provides a variety of licensing and registration services to stakeholders in the insurance sector in Ontario. In this regard, FSCO has established the Life License Qualification Program (LLQP), which is a self-study program designed to be recognized as a common standard for life, health and travel insurance advisors.

In addition, individuals engaged in the insurance advisory industry may opt to pursue a variety of additional professional qualifications, such as (i) the Chartered Life Underwriter (CLU) designation, specializing in the areas of income replacement, risk management, estate planning, and wealth transfer; (ii) the Certified Financial Planner (CFP) designation, concerning personal financial planning, investment products and investing strategies; and (iii) the Certified Employee Benefits Specialist (CEBS) designation. These designations as well as others are granted by independent governing bodies such as the Financial Planners Standards Council, the Financial Advisors Association of Canada and The International Foundation, and are independently regulated by such bodies.

In addition, although there are currently restrictions on the ability of Canadian banks to market insurance products in competition with the Company, such legislation is currently under review. Accordingly, dependent upon the nature of legislative reforms, Canadian banks may in the future be able to offer products which are competitive with the products offered by the Company.

#### Termination of Contracts

Group insurance contracts are generally re-negotiated on an annual basis with clients, pursuant to which insurance premium pricing increases or decreases. Accordingly, there can be no guarantee that insurance contracts sold through the Company in the past will be renewed on a go-forward basis. The Company does, however, generate approximately 60% of its revenues on contracts for services which extend for one to seven years. The advisor/consultant acts as a paid intermediary during this renewal process and throughout the year. Advisors are paid for their services as earned or are paid in advance from time to time. In the event that a contract is terminated by a client and the advisor has been paid in advance for the year, then the advisor may rebate the amount paid on a pro rata basis to the insurance company.

In addition, renewal negotiations have historically resulted in increased premiums or decreased benefit

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coverage, or a combination thereof. The majority of the contracts negotiated have a commission based structure that is related to the premium payable pursuant to the contract in question. Accordingly, sales commissions may increase in the ensuing year based upon any increases in contract premiums payable, although the extent of such increases in sales commissions may be curtailed by the use of grading commission structures which do not necessarily increase in tandem with premiums.

### **Competitive Conditions**

The insurance brokerage market is highly competitive and is composed of a large number of companies of varying size and scope of services. Insurance companies themselves also offer their products through other methods, including insurance agents and direct distribution channels, which are competitive with the insurance brokerage industry and the Company.

### **Future growth and expansion is dependent on ongoing acquisitions of Group Benefit and Pension Advisory Service businesses**

To a large extent, the Company's growth and expansion plans depend upon the ongoing acquisition of independent Group Benefit and Pension Advisory businesses at reasonable prices. There can be no assurance that an adequate number of acquisition candidates will be available to the Company to meet its expansion plans, or in the event that such businesses are available for acquisition that they will be available at a price which would allow the Company to operate on a profitable basis. The Company competes for acquisition and expansion opportunities with entities that have substantially greater resources than the Company and these entities may be able to outbid the Company for acquisition targets. If the Company fails to execute its acquisition strategy, the Company's revenue growth is likely to suffer.

### **The Company may be unable to successfully integrate its recent or future acquisitions**

There can be no assurance that the Company's recently acquired businesses or any businesses acquired by the Company in the future will achieve acceptable levels of revenue and profitability or otherwise perform as expected. The Company has limited experience in acquiring and integrating brokerages in other markets. The Company may be unable to successfully integrate its recently-acquired businesses, or any it may acquire in the future, due to diversion of management attention, strains on the Company's infrastructure, difficulties in integrating operations and personnel, entry into unfamiliar markets, or unanticipated legal liabilities or tax, accounting or other issues. A failure to integrate acquired businesses may be disruptive to the Company's operations and negatively impact the Company's revenue or increase the Company's expenses.

### **The Company anticipates the need for additional financing, which it may not be successful in arranging**

The Company has relied principally on equity and vendor-take-back debt financing to fund its acquisitions. The Company may require additional funds to make future acquisitions of Group Benefit and Pension Advisory businesses and may require additional funds to market and sell its products into the marketplace. The ability of the Company to arrange such financing in the future, and to repay its existing debt, will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, when needed, on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of the Company may change and shareholders may suffer additional dilution. If additional financing is not available on terms favorable to the Company, the Company may be unable to grow or may be required to limit or halt its expansion plans. In addition, the Company's existing creditors, some of whom have security interests in the Company's assets, may exercise their rights to acquire or dispose of the Company's assets.

### **No intention to declare dividends**

The Company currently intends to retain any future earnings to fund growth and operations and it is unlikely to pay any dividends in the immediate or foreseeable future. Any decision to pay dividends on its

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Common Shares in the future will be made by the Board of Directors on the basis of the Company's earnings, financial requirements and other conditions at such time.

**OUTLOOK**

Management believes that the Company's ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for capital expenditures and working capital given its ability to successfully restructure its VTB debt, however, future acquisitions will require the Company to seek additional debt and/or equity financing. The Company's future needs may, however, change, and in such event the Company's ability to satisfy its obligations will be dependent upon its future financial performance, which in turn will be subject to a number of risks and uncertainties, including elements beyond the Company's control.

**ADDITIONAL INFORMATION**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).